

City of Cincinnati



January 3, 2002

FOR YOUR INFORMATION

To: Mayor and Members of City Council

From: Timothy H. Riordan, City Manager (Acting)

Copies to: B. Baker, D. Rager, B. Moller, Members of Retirement Board

Subject: **Anthem Demutualization**

This memo is to update the City Council on the subject of distribution of shares from the conversion of Anthem from a mutual insurance company to a publicly traded company. (See previous memo attached.)

Last week, we were notified by Anthem that we have received the shares as a result of the initial public offering.

Over the past two months, we have worked to insure that we would receive the correct amount of shares, worked to insure liquidity of the distribution, and worked to determine restrictions on the use of the funds.

A large amount of work was completed to insure that we received the proper amount of shares. We used Mercer Consulting Services and Squire, Sanders and Dempsey as special consultants to perform our due diligence. Eventually, we were satisfied that the distribution formula was fair and equitable.

There are limitations on our ability to sell the shares for the first six months of the stock's initial trading period. Additionally, under the Ohio constitution, the City cannot hold shares of stock. Our goal, therefore, is to liquidate the stock prudently but quickly. We anticipate completing the sale of the shares by the end of 2002. The stock has traded between \$28 and \$48 per share. It is currently priced around \$48 per share.

The City purchases health insurance through its Risk Management Fund. All other City funds such as the Water Works Fund budget for and pay into the Risk Management fund based on a calculated amount per employee. In addition, insurance for Cincinnati Retirement System retirees is also paid for from the Risk Management Fund and reimbursed by the CRS.

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We anticipate that the proceeds from sale of shares of stock will be returned to the Risk Management Fund. These funds can be used to offset some of the projected 2003 deficit that is caused by the large increases in health care costs. They can also be used to reduce future increases in health care costs. The Risk Management Fund has declined by nearly \$10 million in the past two years as we have experienced double-digit increases in employee health care costs.

We anticipate receiving an opinion in the next few weeks from our securities and insurance counsel on the question of the distribution and use of the funds. This is a very unique situation and we continue to proceed carefully. We will report again after receiving and analyzing the opinion.